

CITY OF SAN FERNANDO

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2008, through June 30, 2009



JOHN CHIANG
California State Controller

January 2011



JOHN CHIANG
California State Controller

January 26, 2011

The Honorable Mario F. Hernandez
Mayor of the City of San Fernando
117 MacNeil Street
San Fernando, CA 91340

Dear Mayor Hernandez:

The State Controller's Office audited the City of San Fernando's Special Gas Tax Street Improvement Fund for the period of July 1, 2008, through June 30, 2009. We also audited the Traffic Congestion Relief Fund allocations recorded in the Special Gas Tax Street Improvement Fund for the period of July 1, 2004, through June 30, 2009.

Our audit disclosed that the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements, and that no adjustment to the fund is required; however, we identified a procedural finding.

If you have any questions, please contact Steven Mar, Chief, Local Government Audits Bureau, at (916) 324-7226.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/vb

cc: Al Hernandez, City Administrator
City of San Fernando
Margarita Solis, City Treasurer
City of San Fernando

Contents

Audit Report

Summary	1
Background	1
Objective, Scope, and Methodology	1
Conclusion	2
Follow-Up on Prior Audit Findings	2
Views of Responsible Official	2
Restricted Use	3
Schedule 1—Reconciliation of Fund Balance	4
Finding and Recommendation	5
Attachment—City’s Response to Draft Audit Report	

Audit Report

Summary

The State Controller's Office audited the City of San Fernando's Special Gas Tax Street Improvement Fund for the period of July 1, 2008, through June 30, 2009. We also audited the Traffic Congestion Relief Fund (TCRF) allocations recorded in the Special Gas Tax Street Improvement Fund for the period of July 1, 2004, through June 30, 2009.

Our audit disclosed that the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements, and that no adjustment to the fund is required; however, we identified a procedural finding.

Background

The State apportions funds monthly from the highway users tax account in the transportation tax fund to cities and counties for the construction, maintenance, and operation of local streets and roads. The highway users taxes derive from state taxes on the sale of motor vehicle fuels. In accordance with Article XIX of the California Constitution and Streets and Highways Code section 2101, a city must deposit all apportionments of highway users taxes in its Special Gas Tax Street Improvement Fund. A city must expend gas tax funds only for street-related purposes. We conducted our audit of the city's Special Gas Tax Street Improvement Fund under the authority of Government Code section 12410.

Government Code section 14556.5 created a Traffic Congestion Relief Fund in the State Treasury for allocating funds quarterly to cities and counties for street or road maintenance, reconstruction, and storm damage repair. Cities must deposit funds received into the city account designated for the receipt of state funds allocated for transportation purposes. The city recorded its TCRF allocations in the Special Gas Tax Street Improvement Fund. We conducted our audit of the city's TCRF allocations under the authority of Revenue and Taxation Code section 7104.

Objective, Scope, and Methodology

Our audit objective was to determine whether the city accounted for and expended the Special Gas Tax Street Improvement Fund in compliance with Article XIX of the California Constitution, the Streets and Highways Code, and Revenue and Taxation Code section 7104. To meet the audit objective, we determined whether the city:

- Properly deposited highway users tax apportionments and other appropriate revenues in the Special Gas Tax Street Improvement Fund;
- Expended funds exclusively for authorized street-related purposes; and
- Made available unexpended funds for future expenditures.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We did not audit the city's financial statements. We limited our audit scope to planning and performing the audit procedures necessary to obtain reasonable assurance that the city accounted for and expended the Special Gas Tax Street Improvement Fund in accordance with the requirements of the Streets and Highways Code and Revenue and Taxation Code section 7104. Accordingly, we examined transactions, on a test basis, to determine whether the city expended funds for street purposes. We considered the city's internal controls only to the extent necessary to plan the audit.

Conclusion

Our audit disclosed that the City of San Fernando accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with Article XIX of the California Constitution and the Streets and Highways Code for the period of July 1, 2008, through June 30, 2009, except as noted and described in the Finding and Recommendation section of this report.

Our audit also disclosed that the city accounted for and expended its TCRF allocations recorded in the Special Gas Tax Street Improvement Fund in compliance with Article XIX of the California Constitution, the Streets and Highways Code, and Revenue and Taxation Code section 7104 for the period of July 1, 2004, through June 30, 2009.

Follow-Up on Prior Audit Findings

Our prior audit report, issued on September 9, 2005, disclosed no findings.

Views of Responsible Official

We issued a draft audit report on November 3, 2010. Al Hernandez, City Administrator, responded by letter dated November 30, 2010, agreeing with the audit results with the exception of Finding. The city's response is included in this final audit report as an attachment.

Restricted Use

This report is intended for the information and use of the City of San Fernando and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

January 26, 2011

**Schedule 1—
Reconciliation of Fund Balance
July 1, 2008, through June 30, 2009**

	Special Gas Tax Street Improvement Fund		
	Highway Users Tax Allocation ¹	TCRF Allocation ²	Totals
Beginning fund balance per city	\$ 348,132	\$ —	\$ 348,132
Revenues	<u>414,524</u>	<u>213,601</u>	<u>628,125</u>
Total funds available	762,656	213,601	976,257
Expenditures	<u>(189,105)</u>	<u>(213,601)</u>	<u>(402,706)</u>
Ending fund balance per city	573,551	—	573,551
Timing adjustment:			
Accrual of June 2009 highway users tax apportionment (Governmental Accounting Standards Board Statement No. 34)	36,264	—	36,264
SCO adjustments	<u>—</u>	<u>—</u>	<u>—</u>
Ending fund balance per audit	<u>\$ 609,815</u>	<u>\$ —</u>	<u>\$ 609,815</u>

¹ The city receives apportionments from the state highway users tax account, pursuant to Streets and Highways Code sections 2105, 2106, 2107, and 2107.5. The basis of the apportionments for sections 2105, 2106, and 2107 varies, but the money may be used for any street purpose. Streets and Highways Code section 2107.5 restricts apportionments to administration and engineering expenditures, except for cities with populations of fewer than 10,000 inhabitants. Those cities may use the funds for rights-of-way and for the construction of street systems.

² Government Code section 14556.5 created a Traffic Congestion Relief Fund (TCRF) in the State Treasury for allocating funds quarterly to cities and counties for street and road maintenance, reconstruction, and storm damage repair. The TCRF allocations were recorded in the Special Gas Tax Street Improvement Fund. The audit period was July 1, 2004, through June 30, 2009.

Finding and Recommendation

FINDING— General fund cash impairment

During our audit, we found that the city's General Fund cash account reported month-end negative balances from October 2008 through May 2009, and, as of June 30, 2009, the cash account balance was zero. Review of the General Fund cash account month-end balances from July 2009 through March 2010, subsequent to the audit period, also report negative amounts. As the General Fund is the chief operating fund of the city, it appears that whenever it approaches a zero balance, the city has allowed the General Fund to borrow from the city's investment pool to pay for the city's operating costs. This situation is concerning because the city pools its available cash from various funds including the state gas tax fund and the traffic congestion relief moneys for investment purposes. As of today, the city has not demonstrated that it has restored the financial health of the General Fund and thus it is inadvertently affecting the integrity of the gas tax fund and the traffic congestion relief fund allocations.

Streets and Highways Code section 2118 imposes a mandatory duty on the Controller to ensure that the city deposits money received from the highway users tax fund into a separate bank account when deemed necessary.

Recommendation

The city must establish a separate bank account for the state gas tax and traffic congestion relief fund moneys. This account should be used to record all deposits and expenditures against these moneys. The city has 30 days to provide the State Controller's Office with proof that a separate bank account has been established. The bank account shall remain open until the city provides evidence that, over a reasonable period of time, it has restored the financial health of the General Fund.

City's Response

Thank you for your draft report of the City's Special Gas Tax Street Improvement Fund and Traffic Congestion Relief Fund audit report for the periods through June 30, 2010. Although we have at times run a deficit in our general fund we have funded our operations through loans from our enterprise funds as needed. Thus the zero balance at June 30, 2009 and the proposed zero balance at June 30, 2010. The June 2010 balance would be zero after we book our final entries as approved by the City Auditors. The City has not used any of the Streets or Traffic Congestion Funds to fund possible shortfalls in the General Fund. Rather the City has used only Enterprise Funds to borrow from in cases of cash shortages in the General Fund.

I have attached a copy of the current JE we have with our auditor so you can see that none of the funding comes from our Gas Tax or Congestion Relief fund. I hope you give this some consideration as to set up a different bank account and pay out of this account would cause us a significant amount of extra work.

SCO's Comment

We have no problem with the accounting of loans from the enterprise funds to the General Fund. Our concern is that as the General Fund's cash balance approaches a zero balance, the city borrows from the city's cash management pool. The cash management pool is composed of the available cash from various funds including enterprise funds, state gas tax fund and the traffic congestion relief moneys. The purpose for the cash management pool is to maximize the investment return for the city. Each fund receives a share of the investment returns earned based on the equity interest that each fund holds in the pool. Our audit found that the city allowed the General Fund to borrow from the cash management pool from October 2008 through March 2010, and as of December 16, 2010, the city still had not demonstrated that it has restored the financial health of the General Fund.

The city's response states that cash is loaned to the General Fund directly from separate and distinct enterprise funds' cash accounts held apart from the city's cash management pool. This is not correct because all available city cash is pooled for investment purposes. Second, the city suggests that these loans to the General Fund do not impact other funds. We disagree. We believe that each fund is impacted in proportion to the equity interest in the pool whenever cash is withdrawn to pay for General Fund obligations. The precarious condition of the General Fund inadvertently affects the integrity of the gas tax fund and the traffic congestion relief fund allocations.

Therefore, the finding and recommendation remain unchanged.

**Attachment—
City's Response to
Draft Audit Report**

Steven Mar
Chief Local Government Audit Bureau
State Controllers Office
Division of Audits
PO Box 942850
Sacramento, Ca. 94250-5874

November 30, 2010

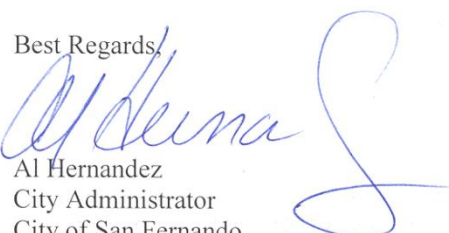
RE City of San Fernando

Thank you for your draft report of the City's Special Gas Tax Street Improvement Fund and Traffic Congestion Relief Fund audit report for the periods through June 30, 2010. Although we have at times run a deficit in our general fund we have funded our operations through loans from our enterprise funds as needed. Thus the zero balance at June 30, 2009 and the proposed zero balance at June 30, 2010. The June 2010 balance would be zero after we book our final entries as approved by the City Auditors. The City has not used any of the Streets or Traffic Congestion Funds to fund possible shortfalls in the General Fund. Rather the City has used only Enterprise Funds to borrow from in cases of cash shortages in the General Fund.

I have attached a copy of the current JE we have with our auditor so you can see that none of the funding comes from our Gas Tax or Congestion Relief fund. I hope you give this some consideration as to set up a different bank account and pay out of this account would cause us a significant amount of extra work.

If you have any questions please call me at 818 898-1202.

Best Regards,



Al Hernandez
City Administrator
City of San Fernando
818 898-1202

Attachment: Year End Closing JE

City of San Fernando
Due to/Due from
June 30, 2010

Special Revenue Funds

Fund	
01	General Fund
06	Self Insurance
18	Retirement
26	CDBG
27	Street Lighting
29	Parking M&O
40	State of Emergency
	185,130.99
	332,505.29
	1,044,220.03
	17,372.57
	143,661.44
	67,213.34
	136,663.07
	1,926,766.73
	Due From Fund 72

10 Grants

1,449,857.10

Due From Fund 70

73 Refuse Disposal Fund

249,231.14

Due From Fund 72

RDA Funds

80/82 Project Area #1 Capital Projects Fund

2,209,967.29

Due From Debt Service Project Area #1 Fund 81 & Debt Service Project Area #1A Fund 83

86 Project Area #2 Capital Projects Fund

85,653.26

277,755.74

89/92 Project Area #3 Capital Projects Fund

363,409.00

Due From Low-Income Housing Fund 94

95 Project Area #4 Capital Projects Fund

122,000.59

521,735.76

88/91 Project Area #3 Debt Service Fund

643,736.35

Due From Debt Service Project Area #2 Fund 85 & Debt Service Project Area #4 Fund 93

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874**

<http://www.sco.ca.gov>